

CODE MODIFICATION PROPOSAL No 0198
Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit
Points
Version 2.0

Date: 11/02/2008

Proposed Implementation Date: 01/06/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

The Authority decision on the sale of gas distribution networks by National Grid Transco concluded that NTS Offtake arrangements required reform to be introduced in two phases:

- ‘Interim Arrangements’ to establish the new commercial framework recognising the new NTS/DN interface; and
- ‘Enduring Arrangements’ (by September 2005) to introduce more market based arrangements effective from Gas Year 2008/09 consistent with the Authority’s November 2004 Final Impact Assessment with regards to NTS exit capacity reform.

The Uniform Network Code (UNC) was therefore developed on the basis that the Interim Arrangements would expire on 30 September 2008 and sunset clauses were introduced associated with the arrangements for:

1. Firm Capacity Applications for NTS Exit Points (under TPD Section B3.9); and
2. NTS Offtake Capacity registration for NTS/LDZ Offtakes and provision of the Offtake Capacity Statement (under TPS Section B6.2 and B6.3).

It was envisaged that the Enduring Arrangements would be introduced shortly after completion of the DN sales process, facilitated by a UNC Modification Proposal, to define the NTS Exit Capacity Regime to apply in respect of booking and utilisation of NTS Exit Capacity for the period from 1 October 2008. However on 24 June 2005 the Authority announced a delay to the implementation of the Enduring Arrangements until September 2007 with respect to release of NTS Capacity Rights from Gas Year 2010/11 in order to permit more time to consider and refine the detail of these arrangements. As a result of this National Grid NTS raised, and the Authority subsequently approved, implementation of Modification Proposal 0046 “Extension of the Sunset clauses for Registration of Capacity at NTS Exit Points”. This extended the Transitional Arrangements by an additional 2 years.

In order to facilitate the implementation of Enduring Arrangements,

National Grid NTS raised Modification Proposal 0116V “Reform of the NTS Offtake Arrangements”, which the Authority subsequently directed be implemented with an effective date of 1 April 2008. The Authority recognised that this delay was likely to require further Modifications to the UNC in order to establish capacity booking arrangements for Gas Year 2010/11. Consequently National Grid NTS raised, and the Authority subsequently approved, Modification Proposal 0142 “Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points”. The result of this proposal was to extend the application of the sunset clauses until September 2011.

After the direction to implement Proposal 0142 to extend the sunset clauses contained within the UNC, the Competition Commission received an appeal, which it subsequently upheld, in relation to the Authority’s decision to implement Proposal 116V. Consequently the Authority is now reconsidering the five Modification Proposals that were raised in relation to Reform of the NTS Offtake Arrangements.¹ Review Group 166 has also raised an additional Modification Proposal (0195 – Introduction of Enduring NTS Exit Capacity Arrangements) with the intention of this being considered alongside the five other Proposals. In light of these developments, National Grid NTS recognises that the exit process is unlikely to be completed and the respective Proposal implemented by 1 April 2008, thereby creating some uncertainty around capacity booking arrangements for Gas Year 2011/12.

National Grid NTS is therefore raising this Modification Proposal in order to extend the sunset clauses currently contained within the UNC for a further one year in order to clarify the capacity booking arrangements for Gas Year 2011/12 and provide time for the exit process to conclude. The following changes are proposed:

1. Firm NTS Capacity Applications

It is proposed that the current arrangements for Firm NTS Capacity Applications be extended until 30 September 2012. This will allow Shipper Users to continue to request increases in Firm Capacity or redesignation of an Interruptible Supply Point as Firm for utilisation over an extra Gas Year.

2. NTS Offtake Capacity Registration Process

In accordance with current UNC provisions, Distribution Network Operator (DNO) Users have NTS Offtake Capacity allocations for each of their NTS/LDZ Offtakes for each Gas Year up to and including Gas Year ending 30 September 2011. These allocations are contained within the relevant Offtake Capacity Statement. DNO Users are able to request an increase or decrease to these allocations during June/July each year (“the Application Window”). National Grid NTS then informs the DNO User whether its

¹ Modification Proposals 116V, 116VD, 116A, 116BV and 116CVV

application has been accepted in whole or in part, or rejected, through issuing a revised Offtake Capacity Statement (OCS) by 30 September following the Application Window. The Offtake Capacity Statement contains the allocated NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity for each of its NTS/LDZ Offtakes together with the Assured Offtake Pressures.

It is proposed to extend these arrangements over the period of the Transitional Arrangements such that DNO Users are able to apply on an annual basis for initial amounts of NTS Offtake Capacity at each of their NTS/LDZ Offtakes beyond 30 September 2011 to 30 September 2012. Therefore for 2008, it is proposed that DNO Users would apply for initial amounts of NTS Offtake Capacity for Gas Year 2011/2012 during the normal June/July Application Window.

Amendments to previously allocated NTS Offtake Capacity amounts are proposed to continue on the same basis as the current arrangements over the transitional period. This would mean, for example, that DNO Users would be able to apply for changes to existing allocations for Gas Years 2008/09, 2009/10, 2010/11 in June/July 2008.

National Grid NTS will make determinations of any request to amend capacity allocations or for an initial amount of capacity in accordance with the Incremental Exit Capacity Release (IExCR) Methodology Statement. National Grid NTS intends to consult on the changes to the current IExCR to extend its applicability beyond 30 September 2011 up to 30 September 2012.

It is proposed that Assured Offtake Pressures for Gas Years beyond 30 September 2011 are set for each NTS/LDZ Offtake at the same level as specified for the previous Gas Year, subject to any revisions agreed in accordance with existing mechanisms under TPD Section J2.5.

Table 1. Proposed Timetable for NTS Offtake Capacity Registration over the revised transitional period

Application Window	Requests for Amended Capacity – Relevant Gas Years	Requests for Initial Capacity – Relevant Gas Year	National Grid NTS Response to Capacity Request
June/July 2008	2008/09 2009/10 2010/11	2011/12	30 September 2008
June/July 2009	2009/2010 2010/2011 2011/2012		30 September 2009
June/July 2010	2010/2011 2011/2012		30 September 2010
June/July 2011	2011/2012		30 September 2011

It is recognised that Shipper Users at NTS Supply Points and NTS CSEPs

can only formally register NTS Exit Capacity requirements under the current UNC provisions for shorter periods and closer to the gas flow day compared to the proposals set out above for DNs. However, Shipper Users and/or developers may be able to ‘reserve’ future capacity requirements that would require specific investment in the NTS via the execution of an Advanced Reservation of Capacity Agreement (ARCA) as explained in the National Grid statement of “Principles and Methods to be used to Determine Charges for National Transmission System Connection Services” (available on National Grid’s website). An ARCA obliges National Grid NTS to accept Shipper User applications for firm capacity (or a load increase or transfer) in respect of the relevant NTS Exit Point up to the level in the ARCA over a specified period. National Grid NTS therefore considers that the current arrangements (i.e. facilitation through an ARCA) in place for NTS Supply Points and NTS CSEPs allowing Shipper Users, where NTS investment is required, to obtain the required rights for capacity ahead of and for longer periods than the formal UNC registration process allows, is comparable to the proposals put forward in this Modification for DNO Users. This therefore allows, in National Grid NTS’s view, for a corresponding delay in the fundamental changes in the Shipper User UNC registration processes until the Enduring Arrangements are implemented when common capacity products and registration processes would be introduced across all NTS Exit Points.

If this Proposal were not implemented in the indicated timescales, there would be no mechanisms:

- For DNO Users to apply for, and National Grid NTS to confirm, NTS Offtake Capacity requirements beyond September 2011, such that Transporters are able to finalise their respective investment plans and ensure compliance with their Licence and Safety obligations.
- For Shipper Users to continue to request increases in NTS Firm Capacity or redesignation of an Interruptible Supply Point as Firm for utilisation over an extra Gas Year.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Urgent Procedures are not requested

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

National Grid NTS believes that in order to provide certainty to the Industry, in relation to Capacity booking arrangements for Gas Year 2011/12, as soon as possible, this Proposal should proceed straight to consultation.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives

National Grid NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would enable DNO Users to register their NTS/LDZ Offtake Capacity requirements beyond September 2011, which would allow National Grid NTS to undertake better informed investment decisions and thereby better facilitate the efficient and economic operation of the NTS pipeline system;
- In respect of Standard Special Condition A11 paragraph 1(b), the Proposal would enable National Grid NTS and DNO Users to formally confirm NTS/LDZ Offtake Capacity levels to support their respective investment decision beyond September 2011 and thereby better facilitate the co-ordinated, efficient and economic operation of the combined pipeline system; and
- In respect of Standard Special Condition A11 paragraph 1(c), (the efficient discharge of the licensee's obligations under this Licence), the Proposal would promote the economic and efficient development and operation of the system which might be expected to facilitate the relevant objective of compliance with Licence obligations.

3 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

National Grid NTS considers that implementation of this Proposal would benefit security of supply by ensuring DNO Users are able to request NTS Offtake Capacity requirements and National Grid NTS is able to confirm allocations to DNO Users for one Gas Year beyond September 2011. This will support the Transporter's undertaking of investment decisions in a co-ordinated manner and ensure sufficient transportation capability is available to meet the peak demand.

4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

National Grid does not believe this Proposal, if implemented, would adversely affect the operation of the System.

b) The development and capital cost and operating cost implications:

National Grid NTS believes this Proposal, if implemented, would facilitate the efficient and economic formulation of each Transporter's investment programmes, thereby allowing investments to be undertaken in a more cost effective and efficient manner.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

National Grid NTS does not believe this Proposal, if implemented, requires it to recover any additional costs.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

National Grid NTS does not believe this Proposal, if implemented, would have any consequences on the level of contractual risk of each Transporter.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

National Grid NTS considers that implementation of this Proposal would benefit security of supply by ensuring DNO Users are able to request NTS Offtake Capacity requirements and National Grid NTS is able to confirm allocations to DNO Users for one Gas Year beyond September 2011. This will support the Transporter's undertaking of investment decisions in a co-ordinated manner and ensure sufficient transportation capability is available to meet the peak demand.

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

National Grid NTS does not envisage any impact on the UK Link System or related computer systems of each Transporter if this Proposal were to be implemented.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

National Grid NTS does not believe this Proposal, if implemented, would have any additional implications on the administrative or operational processes / procedures.

b) The development and capital cost and operating cost implications

National Grid NTS believes this Proposal, if implemented, would facilitate the efficient and economic formulation of each Transporter's investment programmes, thereby allowing investments to be undertaken in a more cost effective and efficient manner.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

National Grid NTS does not believe this Proposal, if implemented, would have any consequences on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

National Grid NTS has not identified any adverse implications.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

National Grid NTS has not identified any consequences.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

National Grid NTS believes that this Proposal, if implemented, would:

- Allow DNO Users to apply for NTS Offtake Capacity requirements and National Grid NTS to confirm capacity allocations to DNO Users for an additional Gas Year beyond 30 September 2011. This will support the Transporter's undertaking of co-ordinated, efficient and economic investment decision and ensure sufficient transportation capability is available to meet the peak demand; and
- Allow for the extension of the Transitional Arrangements until the Enduring Arrangements are implemented, without fundamental changes to the Shipper User capacity registration processes.

Disadvantages

National Grid NTS is unaware of any disadvantages.

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

Not applicable

12 Detail of all other representations received and considered by the Proposer

Not applicable

13 Any other matter the Proposer considers needs to be addressed

None identified

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Sent to extraordinary Modification Panel meeting (subject to discussion at February Transmission Workstream)	07/02/08
Proposal issued for consultation (subject to Panel approval)	08/02/08
Closeout for representations (15 days)	29/02/08
FMR issued by Joint Office	07/03/08
Modification Panel decide upon recommendation	20/03/08
Ofgem decision expected	01/05/08
Proposed implementation date	01/06/08

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

UNC Transition Document

Section(s) B

Proposer's Representative

National Grid NTS

Proposer

National Grid NTS